

Message Text

LIMITED OFFICIAL USE

PAGE 01 OECD P 27399 01 OF 02 200846Z

13

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

L-03 SS-20 NSC-10 H-03 XMB-07 STR-08 DRC-01 TAR-02

/186 W

----- 035020

R 200803Z OCT 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC 889

INFO AMEMBASSY HELSINKI

USMISSION EC BRUSSELS

LIMITED OFFICIAL USE SECTION 1 OF 2 OECD PARIS 27399

E.O. 11652: N/A

TAGS: EFIN, OECD

SUBJECT: 101ST SESSION COMMITTEE ON INVISIBLE TRANSACTIONS

REF: USOECD 25017

1. SUMMARY. INVISIBLES COMMITTEE AT ITS MEETING ON SEPT 10-12 EXAMINED FINNISH RESERVATIONS AND AGREED TO ACCEPT FINNISH REQUEST FOR ARTICLE 7 (B) DEROGATION PERMITTING RE-INTRODUCTION OF RESTRICTIONS ON COMMERCIAL SHORT TERM CREDITS GRANTED BY NON-RESIDENTS TO RESIDENTS. FINLAND UNWILLING TO CONSIDER REMOVING ANY OF 20 CURRENT RESERVATIONS, STRESSING NEED FOR CONTROLS AS SAFEGUARDS TO BE ACTIVATED IN TIMES OF STRESS, AND NOTING LIBERAL IMPLEMENTATION OF EXISTING CONTROLS. CLEARLY PRECAUTIONARY NATURE OF RESERVATIONS WAS CHALLENGED BY SEVERAL IC MEMBERS WHO CONSIDERED DEROGATIONS AS MORE APPROPRIATE RESPONSE TO PERIODIC CRISES. END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 27399 01 OF 02 200846Z

2. EXAMINATION OF RESERVATIONS. FINNISH DELEGATE CITED

FOLLOWING REASONS FOR CONTINUED MAINTENANCE OF RESERVATIONS:

A. SENSITIVITY OF FINNISH ECONOMY TO CYCLICAL CHANGES ABROAD, PARTICULARLY THROUGH EXPORTS WHICH CONTRIBUTE 25 PERCENT OF GNP AND HAVE HIGH INCOME ELASTICITY IN IMPORTING COUNTRIES. B. LACK OF DIVERSIFICATION OF INTERNAL FINANCIAL MARKETS WHICH LIMITS POLICY INSTRUMENTS AVAILABLE TO FINNISH MONETARY AUTHORITIES. BANK OF FINLAND RELIES CHIEFLY ON CONTROLS OVER COMMERCIAL BANKS IN ABSENCE OF WELL DEVELOPED SECURITIES AND MONEY MARKETSM C. EXISTENCE OF QUOTE STRUCTURAL UNQUOTE CURRENT ACCOUNT DEFICIT REQUIRES FINLAND TO PROTECT EXTERNAL LIQUIDITY POSITION WHILE SEEKING TO MAINTAIN SUFFICIENT RATE OF INTERNAL GROWTH. D. NEED FOR QUANTITATIVE CONTROLS ON EXTERNAL CAPITAL MOVEMENTS TO PREVENT LEAKAGES WHICH MIGHT DAMAGE OVERALL FINANCIAL POLICIES.

3. FINNISH MEMBER SAW CONTROLS PRIMARILY AS SAFEGUARDS TO BE ACTIVATED IN TIMES OF STRESS. HE RECOGNIZED THAT CYCLICAL DISTURBANCE COULD BE CORRECTED BY MEASURES UNDER DEROGATION CLAUSE, BUT EMPHASIZED SUSCEPTIBILITY OF FINNISH ECONOMY TO RAPID CHANGES IN CAPITAL MOVEMENTS WHICH WERE LARGER THAN ELEWHERE IN RELATION TO OTHER ELEMENTS OF FINANCIAL SYSTEM. THUS FINLAND NEEDED TO MAINTAIN MAXIMUM NUMBER OF POTENTIAL POLICY INSTRUMENTS AND WAS UNABLE DISPENSE WITH RESERVATIONS. IT WOULD BE DIFFICULT TO REPLACE CONTROLS WITH ALTERNATIVE MEASURES BECAUSE OF REASONS GIVEN PARA 2 ABOVE. HOWEVER, EXTERNAL FINANCIAL CONTROLS WERE BEING IMPLEMENTED IN LIBERAL MANNER DESPITE RESERVATIONS. THERE WAS ONLY ONE RECENT CASE OF INWARD DIRECT INVESTMENT BEING REFUSED, AND FINNISH FOREIGN INVESTMENTS WERE USUALLY APPROVED IF BALANCE OF PAYMENTS BENEFITS WERE INVOLVED.

4. U.S. MEMBER QUESTIONED PRECAUTIONARY NATURE OF RESERVATIONS WHICH, IF ACCEPTED AS GENERAL PRINCIPLE, WOULD UNDERMINE EFFECTIVENESS OF CODE. PERIODIC DEROGATIONS WERE PREFERABLE SINCE THEY REQUIRED EXPLANATION AND JUSTIFICATION OF EACH ADMINISTRATIVE CHANGE. SWEDISH MEMBER ASKED HOW OTHER COUNTRIES WOULD KNOW IF FINLAND MOVED AWAY FROM ITS PRESENT LIBERAL INTERPRETATION OF RESERVATION LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 OECD P 27399 01 OF 02 200846Z

TIONS. GERMAN REP ASKED IF FINLAND INTENDED TO MAINTAIN BLANKET CONTROLS AS PRECAUTION AGAINST ALL EVENTUALITIES FOR AN INDEFINITE PERIOD, OR WHETHER IT PLANNED TO TAKE LONG-TERM STABILIZATION MEASURES.

5. FINNISH MEMBER REPLIED DEFENSIVELY THAT MOST OTHER COUNTRIES BASED THEIR RESERVATIONS ON SAFEGUARD THINKING, THAT NO CHANGE IN PRESENT LIBERAL IMPLEMENTATION WAS

ANTICIPATED, AND THAT FINLAND WAS SEEKING TO DIVERSIFY ITS EXPORTS IN ORDER TO REDUCE SUSCEPTIBILITY TO EXTERNAL INFLUENCES, PARTICULARLY TO PATTERN OF EXPORT LED BOOMS FOLLOWED BY HIGH IMPORT DEMAND SPILLOVER.

6. U.S. REP SUGGESTED NEED FOR MORE ELABORATE PUBLICLY AVAILABLE GUIDELINES ON INWARD DIRECT INVESTMENT IF BLANKET RESERVATIONS WERE MAINTAINED. ACTING CHAIRMAN (BEAUJEAN) SAW NOTHING WRONG WITH MAINTAINING SPECIFIC CLOSED AREAS COMBINED WITH LIBERAL IMPLEMENTATION PLUS PUBLISHED GUIDELINES. FINNISH DEL NOTED EXISTENCE OF DETAILED GUIDES TO FOREIGN INVESTMENT, BUT AGREED AT IC URGING TO PROVIDE ADDITIONAL DETAILS TO SUPPORT RESERVATIONS. HE WONDERED IF OTHER COUNTRIES WOULD ALSO DO SO.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 OECD P 27399 02 OF 02 200905Z

15

ACTION EUR-25

INFO OCT-01 ISO-00 AID-20 CEA-02 CIAE-00 COME-00 EB-11

EA-11 FRB-02 INR-10 IO-14 NEA-10 NSAE-00 RSC-01

OPIC-12 SPC-03 TRSE-00 CIEP-02 LAB-06 SIL-01 OMB-01

L-03 SS-20 NSC-10 H-03 XMB-07 STR-08 DRC-01 TAR-02

/186 W

----- 035107

R 200803Z OCT 73

FM USMISSION OECD PARIS

TO SECSTATE WASHDC 890

INFO AMEMBASSY HELSINKI

USMISSION EC BRUSSELS

LIMITED OFFICIAL USE SECTION 2 OF 2 OECD PARIS 27399

7. U.S. REP SUGGESTED POSSIBLE VALUE OF HORIZONTAL EXAMINATION OF EACH RESERVATION FOR ALL COUNTRIES, RATHER THAN ALL RESERVATIONS FOR EACH COUNTRY. THIS WOULD ALLOW POSSIBLE TRADE-OFFS THROUGH COMPLEMENTARY REMOVAL OF

RESTRICTIONS. WHILE CHAIRMAN AND SEVERAL OTHERS MEMBERS THOUGHT IDEA WORTH PURSUING, IT WAS STRONGLY OPPOSED BY BELGIAN MEMBER ON GROUNDS OF LIMITED COMMITTEE RESOURCES.

8. DISCUSSION OF SPECIFIC RESERVATIONS AS FOLLOWS: A. BUYING AND SELLING OF SECURITIES: FINNS NOTED THAT COMMERCIAL BANKS WERE BEING ALLOWED ON EXPERIMENTAL BASIS TO PURCHASE SECURITIES ABROAD. ALSO FINLAND PLANNING ESTABLISH MUTUAL FUNDS WITH POSSIBILITY OF LIMITED FOREIGN PORTFOLIO INVESTMENT. B. CREDITS GRANTED BY NON-RESIDENTS TO RESIDENTS: THIS RESERVATION DOES NOT APPLY TO SUPPLIER CREDITS WHICH ARE NOW RUNNING AT ABOUT 1.5 BILLION FINMARK LEVEL. C. ADMISSION OF FOREIGN SECURITIES TO DOMESTIC CAPITAL MARKETS: THERE HAVE BEEN NO REQUESTS FOR LISTING LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 OECD P 27399 02 OF 02 200905Z

BECAUSE MARKET IS TOO NARROW.

9. INVOCATION OF DEROGATION CLAUSE. FINNISH INVOCATION ON JUNE 15, 1973 OF DEROGATION CLAUSE IN ARTICLE 7(B) OF CAPITAL MOVEMENT'S CODE WILL PERMIT RE-INTRODUCTION OF RESTRICTIONS ON COMMERCIAL SHORT-TERM CREDITS UP TO SIX-MONTHS MATURITY WHICH WAS PREVIOUSLY IN FORCE FROM DECEMBER 1970 TO MAY 1972. THESE RESTRICTIONS PROHIBIT USE OF SHORT-TERM FOREIGN CREDIT FOR FINANCING OF CERTAIN CONSUMER GOODS IMPORTS AMOUNTING TO ABOUT 25 PERCENT OF TOTAL IMPORTS. IN ADDITION, WITHIN FRAMEWORK OF EXISTING FINNISH RESERVATION ON CREDITS EXCEEDING SIX MONTHS, FINLAND INTRODUCED SELECTIVE DEPOSIT REQUIREMENT FOR IMPORTS OF FOREIGN LONG-TERM CAPITAL, EXCEPTING ONLY STATE CONTRACTED LOANS AND SUPPLIER CREDITS FOR IMPORTS. JUSTIFICATION FOR MEASURES WAS TO SUPPORT PROGRAM OF DOMESTIC MONETARY RESTRAINT DURING OVERHEATED CYCLICAL STATE OF ECONOMY.

10. IC (BENELUX) QUERIED USE OF IMPORT RESTRICTIONS TO RESOLVE OVERHEATING PROBLEMS WHEN BASIC PROBLEM WAS SHORTAGE OF CAPACITY. FINNISH DELEGATE AGREED THAT RESTRICTIONS ON IMPORTS COULD PUT ADDED PRESSURE ON CAPACITY AND REMOVE USEFUL ESCAPE VALVE FOR INFLATION, BUT FULL CAPACITY HAS NOT YET BEEN REACHED AND THERE WAS STILL SOME SLACK IN FINNISH ECONOMY WHICH COULD ABSORB DOMESTIC DEMAND PRESSURES. HE ALSO NOTED THAT MAIN EFFECT OF CASH PAYMENT REQUIREMENT WOULD BE TO REDUCE SHORT-TERM CAPITAL INFLOWS RATHER THAN IMPORTS, INVOLVING SHIFT IN FINANCING FROM FOREIGN TO DOMESTIC SOURCES.

11. IC GAVE TENTATIVE ACCEPTANCE TO FINNISH INVOCATION PENDING FINAL REPORT OF COMMITTEE.

BROWN

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVISIBLES (BALANCE OF PAYMENTS), COMMITTEE MEETINGS, MEETING PROCEEDINGS
Control Number: n/a
Copy: SINGLE
Draft Date: 20 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: thigpegh
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973OECDP27399
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: OECD PARIS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731019/aaaaanxk.tel
Line Count: 224
Locator: TEXT ON-LINE
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: USOECD 25017
Review Action: RELEASED, APPROVED
Review Authority: thigpegh
Review Comment: n/a
Review Content Flags:
Review Date: 22 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22-Aug-2001 by kelleyw0>; APPROVED <27-Nov-2001 by thigpegh>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: 101ST SESSION COMMITTEE ON INVISIBLE TRANSACTIONS
TAGS: EFIN, FI, OECD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005